

**Charter School Facilities Program
 Proposition 51 Funding Round
 Staff Summary Report – February 2018**

Applicant/Obligor:	Tracy Unified School District
Project School:	Primary Charter School
CDS (County – District – School) Code:	39-75499-0102384
School Address/Proposed Site:	51 E. Beverly Place, Tracy, CA 95376
Type of Project:	Rehabilitation
Type of Apportionment:	Preliminary
County:	San Joaquin
District in which Project is Located:	Tracy Unified School District
Charter Authorizer:	Tracy Unified School District
Total OPSC Project Cost:*	\$5,202,898
State Apportionment (50% Project Cost):	\$2,601,449
Lump Sum Contribution:	\$2,601,449
Total CSFP Financed Amount:	N/A
Length of CSFP Funding Agreement:	N/A
Assumed Interest Rate:	N/A
Estimated Annual CSFP Payment:	N/A
First Year of Occupancy of Project:	2019-20

**The amount identified as total project costs represents an estimate provided by the Office of Public School Construction for purposes of Preliminary-Appportionment financial soundness review. Final project costs will be provided at the time of Final Apportionment.*

Staff recommends that the California School Finance Authority (“Authority” or “CSFA”) Board determine that Tracy Unified School District (“District” or “TUSD”) on behalf of Primary Charter School (“Primary”) is financially sound for the purposes of Charter School Facilities Program (“Program” or “CSFP”) Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon Primary Charter School electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.

For purposes of providing proof of the funds available to make the lump sum payment towards the local match, TUSD has confirmed their expected lump sum payment. The funds for the lump sum will come from Measure B bond proceeds with a balance after the first bond issuance of \$29 million. Of that first issuance, \$15 million remains and is in TUSD’s Fund 21. The second issuance will occur during the next three to six months for approximately \$30 million.

This rehabilitation project is part of a Facility Use Agreement between the District and the Tracy Learning Center. TUSD and TLC have agreed that TUSD shall complete \$30,350,000 in improvements on the site. The portion of that project specific to Primary Charter School is the subject of this application. The construction project has already begun on these facility improvements and approximately \$24 million have been encumbered into two construction contracts and approved by the District Board of Directors. The construction project is anticipated to be completed in December 2018.

Application Highlights: Below staff has highlighted key criteria that were evaluated when conducting its financial soundness review of Tracy Unified School District on behalf of Primary Charter School. Detailed information is contained in the body of the report.

Criteria	Comments
District Information	
Demographic Information	In 2016-17, the District operated/authorized three comprehensive high schools, two alternative education high schools, one community school, two middle schools, four K-8 schools, seven K-5 schools and one charter school. Enrollment totaled 16,702 with an ADA rate of 88.3% for 2016-17. By 2019-20, TUSD projects a decline in enrollment to 15,983.
Debt Service Coverage	The District is providing its matching share through Measure B bond proceeds. Measure B was approved by the voters in 2014 for \$82 million.
Other Financial Factors	<ul style="list-style-type: none"> • TUSD’s general fund had a balance of \$52,457,331 at the end of 2016-17. • Net working capital of \$52,457,331 for 2016-17 represented 33.7% of total expenses, which exceeds the preferred minimum of 5.0%.
Special Considerations and Mitigating Factors	Notwithstanding its projected net deficits, TUSD is projecting sufficient fund reserves to offset the deficits in the projected years.
School Information	
Eligibility Criteria	Primary Charter School has met all eligibility criteria: (1) Primary commenced operations in 2004 (2) Primary’s renewal charter was approved in August 2015 and is in place through June 2021; (3) Primary is in good standing with its chartering authority, and in compliance with the terms of its charter.
Student Performance	Primary students have outperformed both the closest local Elementary schools and the District as a whole in both English Language Arts and Mathematics per the “Smarter Balanced” assessment provided by the California Department of Education.

Demographic Information	Primary Charter School currently serves 362 students in grades K-4. Enrollment in 2018-19 is expected to be 363 students. ADA rates average 96.3% from 2013-14 through 2019-20.
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Program Eligibility: On November 16 2017, at CSFA staff’s request, verification was received from the Tracy Unified School District confirming that Primary Charter School is in compliance with the terms of its charter agreements, and in good standing with its chartering authority. Primary’s current charter is effective through June 2021.

Legal Status Questionnaire: Staff reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed that would lead staff to question the financial or legal integrity of this applicant.

Project Description: Primary currently serves 362 grade K-4 students in 7 classrooms (3 permanent classrooms and 4 portable classrooms), a music room and auxiliary facilities. The school plans to renovate all the classrooms and auxiliary facilities, and the estimated total area of the project will be 11,000 square feet. The projected opening date for the project is September 2019.

District Organizational Information: TUSD is a school district located in San Joaquin county and operates/authorized a total of twenty two schools: three comprehensive high schools, two alternative education high schools, one community school, two middle schools, four K-8 schools, seven K-5 schools and three charter schools.

TUSD is comprised of the following mix of races/ethnicities: 50.5% Hispanic or Latino; 21.9% Caucasian; 6.3% African American; 10.8% Asian; 5.5% Filipino; 1.0% Pacific Islander; .3% American Indian/Alaskan Native; and 3.7% identifying with two or more races/ethnicities.

Key staff members of TUSD’s management team are Superintendent, Dr. Brian Stephens, Associate Superintendent for Business Services, Dr. Casey Goodall, and School Board President Greg Silva. Staff reviewed the credentials of TUSD’s management team and determined that collectively and individually, the management team demonstrates having the required experience and educational background.

School Organizational Information: Primary Charter School is located in the city of Tracy, in San Joaquin County. The school’s demographics are not particularly dissimilar to those of their parent school district, Tracy Unified School District. Primary’s enrollment is 44.5% Hispanic vs. TUSD’s 50.5%; 6.9% African American vs. TUSD’s 6.3%; 3% Filipino vs. TUSD’s 5.5%; 28.2% White vs. TUSD’s 21.9%; 9.4% Asian vs. TUSD’s 10.8%; and 19.6% of Primary’s enrollment is socioeconomically disadvantaged vs. 52.3% of TUSD’s.

The Primary Charter School falls under the umbrella of the Tracy Learning Center (TLC). The Tracy Learning Center was founded in 2001 and is a tuition-free, K-12 public school. TLC is a three charter school campus consisting of Primary Charter (K-4), Discovery Charter (5-8) and Millennium Charter (9-12). The nine member TLC Board of Directors includes Patty Warwick, (President), Mike Sousa, (Vice President), Kim Kerr, CP Riddle, Tracy Williams,

Linda Wilcox, Tim Murray, Marni Churchill and Kerry Johnson. Daily school administration is managed by the Executive Director, Virginia Stewart.

In addition to supervising the Superintendent, the Board of Directors establishes policy, engages annually in strategic planning, and manages the primary fiduciary and oversight tasks. All Board meetings are noticed and held in accordance with Brown Act terms and provisions.

School Academic Performance: The following tables represent the 2014-15, 2015-16 and 2016-17 academic performance of Primary; the combined averages (Local Schools) of South/West Park Elementary and McKinley Elementary schools; and TUSD. The results are provided through CDE’s CAASPP Smarter Balanced testing data.

English Language Arts – Comparison

	Years		
	2014-15	2015-16	2016-17
Primary	58%	57%	49%
Local Schools	27%	35%	35%
TUSD	40%	40%	41%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Primary	N/A	High	Low	N/A	0/2	1/2
Local Schools	N/A	Low; Medium	Low; Low	N/A	0/4; 0/3	3/4; 1/3
TUSD	N/A	Low	Low	N/A	9/12	2/10

Mathematics– Comparison

	Years		
	2014-15	2015-16	2016-17
Primary	49%	57%	44%
Local Schools	22%	28.5%	30.5%
TUSD	27%	28%	28%

	All Students Performance			Student Groups w/ Below Avg. Performance		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
Primary	N/A	High	Low	N/A	0/2	0/2
Local Schools	N/A	Low; Medium	Low; Medium	N/A	2/4; 0/3	3/4; 0/3
TUSD	N/A	Low	Low	N/A	9/12	3/10

Enrollment Trends and Projections: The tables below present enrollment information for Primary from 2013-14 through 2020-21. The assumptions made in the projected years are considered reasonable by staff and consistent based on historical data.

School Student Enrollment and Average Daily Attendance

<u>Primary</u>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	336	328	361	362	363	363	363	363
ADA	96.1%	96.6%	95.6%	96.8%	96.6%	96.6%	95.6%	95.6%

District Financial Analysis:

Financial Data Sources: This financial analysis is based on the consideration and review of, the financial obligor, Tracy Unified School District’s: (1) audited financial statements for 2014-15, 2015-16 and 2016-17; (2) adopted budget for 2017-18; and (3) budget projections for 2018-19 through 2019-20 along with assumptions. Please note that staff’s analysis of TUSD’s financial performance, including the evaluation of the operating budget and liquidity, is based on the General Fund only (except in terms of the Measure B bond proceeds that will be used to pay the local matching share)

Assumptions: TUSD’s financial projections are based upon the following assumptions: (1) a occupancy of the rehabilitation project in 2018-19; (2) Enrollment projections as provided above under “Enrollment Trends and Projections”; (3) Projected District-wide ADA rates of 86.7%, which are consistent with historical performance; (4) Local Control Funding Formula (LCFF) per-ADA funding rate of \$9217, as included with TUSD’s adopted budget document for 2017-18, along with COLA rates of 4.3% (2018-19) and 3.0% (2019-20).

Long Term Liabilities: As provided by the 2016-17 audited financial statements, the District has \$260,393,142 in long term debt. The long term liabilities are from the following governmental activities: \$108,024,004 payable in general obligation bonds, \$7,402,820 in bond premiums (net), \$3,786 in compensated absences, \$129,232 in capital leases, and \$144,833,562 in pension liability and other postemployment benefits. Only \$6,322,524 is due within one year with \$5,832,000 (92%) of that amount payable towards general obligation bond debt. The remaining due is towards bond premiums (\$450,820) and capital leases (\$39,704). The general obligation bonds will be paid from property tax assessments through the bond interest and redemption fund. This fund had a balance of \$9,425,060 at the end of 2016-17.

Private Contributions: TUSD does not rely on any private contributions.

Benchmark Summary and Analysis: The following table and summary listing sets forth the results of staff’s analysis regarding TUSD’s financial soundness. Where a threshold has been established based on industry standards or practice, the listing indicates whether or not the threshold was met.

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	Actual FY 2015	Actual FY 2016	Actual FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
OPERATIONAL & FINANCIAL						
Enrollment	16,935	16,702	16,426	16,212	16,147	15,983
Average Daily Attendance (ADA)	15,019	14,752	14,401	14,057	13,713	13,370
Average Daily Attendance (%)	88.7%	88.3%	87.7%	86.7%	84.9%	83.7%
Retention Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FTE Teachers	0	0	0	0	0	0
Pupil-Teacher Ratio	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
LCFF Sources/ADA	\$ 7,501	\$ 8,377	\$ 8,938	\$ 9,217	\$ 9,610	\$ 9,904
% Change		11.7%	6.7%	3.1%	4.3%	3.0%
Operating Revenues/ADA	\$ 9,010	\$ 10,501	\$ 10,825	\$ 11,170	\$ 11,206	\$ 11,532
% Change		16.5%	3.1%	3.2%	0.3%	2.9%
Operating Expenses plus CSFP Lease/ADA	\$ 8,678	\$ 9,520	\$ 10,807	\$ 11,974	\$ 11,639	\$ 12,168
% Change		9.7%	13.5%	10.8%	-2.8%	4.5%
Free Cash Flow/ADA	\$ 332	\$ 981	\$ 18	\$ (805)	\$ (434)	\$ (636)
Free Cash Flow	\$ 5,011,304	\$ 14,482,394	\$ 299,875	\$ (6,313,275)	\$ (3,527,430)	\$ (6,083,310)
LIQUIDITY						
Current Assets	\$ 42,177,239	\$ 56,651,096	\$ 59,615,345	\$ -		
Current Liabilities	4,502,177	4,493,640	7,158,014	-		
Net Working Capital	\$ 37,675,062	\$ 52,157,456	\$ 52,457,331	\$ -		
Net Working Capital/Oper. Expenses	28.9%	37.1%	33.7%	0.0%		
Unrestricted Cash & Cash Equivalents	\$ 35,923,216	\$ 51,116,506	\$ 55,491,713	\$ -		
Unrest. Cash & CE/Oper. Expenses (Days)	101	133	130	0		
Unrest. Cash & CE/All Expenses (Days)	101	133	130	0		

Benchmark Summary:

- Free Cash Flow/ADA – Did Not Meet: (\$90) (>\$0)
- Free Cash Flow – Met: \$429,951 avg. (>\$0)
- Net Working Capital as Portion of Operating Expenses – Met: 24.9% avg. (>5%)
- Unrestricted Cash & Cash Equivalents as Portion of All Expenses –Met: 91 days avg. (> 90 days)

Summary of Financial Findings and Special Considerations: Given that TUSD has agreed to make a lump-sum payment of \$2,601,449 to cover the local matching share, no loan is anticipated and debt service coverage is not a consideration. Rather, the financial analysis focuses on whether TUSD can meet its “General Fund” annual operating obligations. Though projecting negative net income for 2017-18 through 2019-20, the General Fund’s balance averages \$101,220,498 over those three fiscal years. Staff also notes that in the projected years of 2017-18 through 2019-20, the net deficits would represent 15.3%, 10.02%, and 22.7% of the projected ending balances, respectively. Hence, TUSD has sufficient reserves to offset its net deficits, if necessary.

Though Primary has no financial obligation with the CSFP project, staff reviewed their financials to ensure the school is financially viable to continue operations. In 2015-16, Primary had a negative net income of (\$65,270) but closed the 2016-17 year with a positive net income of \$89,406. Their ending fund balance for 2016-17 was \$799,767. Major funding sources for Primary include LCFF income sources, federal income sources (No Child Left Behind/Every Student Succeeds Act, Federal Special Education) state income sources (State Special Education and other state income) and other local income sources. On average, Primary has 94 operating days of unrestricted cash & equivalents and the available working capital averages 29.1% as a portion of the operating expenses.

Strengths, Weaknesses and Mitigants:

- + Primary students have performed much better than two local schools and TUSD on average in both English Language Arts and Mathematics assessment in the last three years.
- + TUSD has confirmed the matching share will be through a lump sum payment from Measure B bond proceeds, which as of June 30, 2017, had a balance of \$9,425,060. The balance is expected to raise after the second bond issuance in 2018 for approximately \$30 million.
- + TUSD's general fund balance for 2016-17 was \$59,457,331.
- +/- TUSD projects its general fund performing at a deficit from 2017-18 through 2019-20 but has an adequate fund balance at the end of each of these years to offset it.

Staff Recommendation: Staff recommends that the California School Finance Authority Board determine that Tracy Unified School District, on behalf of Primary Charter School, is financially sound for the purposes of Charter School Facilities Program Preliminary/Advance Apportionment. This determination as it relates to Preliminary/Advance Apportionment is in place for twelve months and assumes no financial, operational, or legal material findings within this time period. This recommendation is contingent upon Primary Charter School electing to have its CSFP payments intercepted at the state level, pursuant to Sections 17199.4 and 17078.57(a)(1)(A) of the Education Code. Staff recommends that the Authority Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.